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TO RUEHC/SECSTATE WASHDC PRIORITY 2105
INFO RUEATRS/DEPT OF TREASURY WASHDC
RUEHZM/GCC COLLECTIVE

C O N F I D E N T I A L SECTION 01 OF 02 KUWAIT 000977

SIPDIS

FOR NEA/ARP KELLY, EEB/IFD/OMA SNOW
TREASURY FOR BERRY AND ROSE

E.O. 12958: DECL: 09/09/2018
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SUBJECT: KUWAIT INVESTMENT AUTHORITY MD TO AMBASSADOR: KIA
WILL NOT BENEFIT FROM GREATER "TRANSPARENCY"

Classified By: Ambassador Deborah K. Jones for reasons 1.4
(b) and (d).

¶1. (SBU) Summary: On September 9, KIA Chairman Al-Saad told Ambassador that KIA would have no problem meeting most of the objectives in the draft Generally Accepted Principles and Practices for Sovereign Wealth Funds. He reiterated his contention, however, that government investors were being treated unfairly, and that KIA would not benefit from more "transparency." The two briefly discussed the conservator take over plan of Fannie Mae and Freddie Mac, with Al-Saad expressing his appreciation for timely information provided by Treasury. KIA has substantial debt and equity holdings in both companies. End Summary.

Sovereign Wealth Funds

¶2. (SBU) Ambassador, accompanied by Ecouns, met with Kuwait Investment Authority (KIA) Managing Director Bader Al-Saad and the Executive Director of his office, Ahmed Al-Bastaki, on September 9. Ambassador, noting that the International Working Group on Sovereign Wealth Funds (SWFs) had reached agreement on a draft set of Generally Accepted Principles and Practices, asked for Al-Saad's views. Al-Saad reiterated his contention that SWFs, such as KIA were being unfairly treated. He argued that KIA had a responsibility to Kuwait and its future generations to achieve appropriate investment returns, and had never acted to further a geopolitical agenda. He asked, rhetorically, why SWFs should be subjected to this enhanced scrutiny when hedge funds or private equity were not. He asserted that, in KIA's case, he wasn't worried about meeting most of the draft guidelines since 60-70 percent of the required information was already on KIA's web site.

¶3. (SBU) Al-Saad reiterated his contention that more disclosure would not benefit KIA. The oil revenue inflows were already publicly available and KIA reports on its portfolio to the Kuwaiti cabinet and National Assembly. He rejected the assertion that increased transparency would minimize protectionism, noting that "the Chinese are completely transparent," with regard to their SWF, but still faced protectionism.

Economics and Investment

¶4. (SBU) Ambassador and Al-Saad briefly discussed the September 7 announcements that the Federal Housing Assistance Agency (FHAA) had taken over as conservator of Fannie Mae and Freddie Mac. Al-Saad noted his appreciation for Treasury U/S for International Affairs McCormick's efforts to reach out to KIA to explain the action. Other

Kuwaitis, including the Central Bank Governor have privately praised the USG's flexibility and creativity in addressing the problems of the two government sponsored enterprises. (Note: KIA has told us that it holds "substantial" equity and fixed income portfolios for both companies. They are reassured that the fixed-income portion of the portfolio, at least, will continue to generate revenue. End Note.)

15. (SBU) In response to a question from Ambassador, Al-Saad noted the main question he heard from Kuwaitis was not about the FHAA conservatorship, but about the sharp drop in the Kuwait Stock Exchange (KSE) and "what the government was prepared to do about it." He argued that the KSE, like most emerging market stock exchanges, was largely liquidity driven. With large companies such as Zain and National Industries increasing their capital substantially, it sucked some of the liquidity from the market. Al-Saad remarked that there was only a low correlation between the movements of the Kuwaiti Stock Exchange and western markets.

16. (C) With regard to general macroeconomic issues in Kuwait, specifically inflation, Al-Saad sharply criticized government fiscal policy as contributing to inflation and being politically driven. The challenge, he noted, was how to create jobs when the government controlled 60-70% of GDP. He also argued that, while a country could not cut itself off from international markets, it could minimize the risk of turbulence by diversifying its income away from a single source.

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Jones